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Lynchburg, Virginia

Credit Profile

US\$16.5 mil BANs ser 2006 due 07/15/2007	SP-1+
US\$24.205 mil GO public impt bnds due 01/15/2026	AA
Sale date: 26-APR-2006	

AFFIRMED

Outstanding GO bnds	AA
OUTLOOK:	STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to the City of Lynchburg, Va.'s series 2006 BANs and its 'AA' long-term rating to the city's series 2006 GO bonds, reflecting the city's :

- Diverse and stable local economy that serves as a regional employment base and commercial center;
- Good financial operations, bolstered by financial policies and historically strong reserve levels; and
- Moderate debt burden, with a manageable future capital plan.

These factors are offset by wealth levels that are well below average and an unemployment rate that remains above average.

The series 2006 BANs and GO bonds are secured by the city's full faith and credit pledge. Proceeds from both the BANs and bonds will be used to finance the cost of various city capital projects.

The City of Lynchburg encompasses 50 square miles and is located in the central part of the commonwealth. Lynchburg's local economy serves as an employment and commercial center for a four-county metropolitan area (population: about 236,000) known as Region 2000. Although the manufacturing sector remains an integral part of the city, given the numerous small and mid-size firms, the service sector continues to flourish in both employment and income. Within the city, the service sector is the leading employment sector, accounting for 29.5% of employment and 25% of

income. The city's unemployment rate, which historically had been below the commonwealth and national averages, spiked in 2001 as a result of the economic downturn and the closure of Ericson Electronics in 2000 (3,500 employees). However, since 2002, the city's unemployment rate has begun to gradually decline. Wealth and income levels are below commonwealth and national levels; however, the large student population slightly offsets these numbers.

The city's tax base is large, and has increased at a healthy pace, totaling \$4.3 billion in 2006, or a somewhat high \$63,611 per capita of market value. There is no concentration in the tax base, with the 10 leading taxpayers accounting for only 10% the city's assessed valuation.

The city's financial performance and position remain strong. Audited fiscal 2005 general fund results indicate a surplus of \$2.7 million. The ending unreserved general fund balance totaled \$26.5 million, or a strong 21% of expenditures, of which almost all is unreserved. For fiscal 2006, year-to-date, management projects a large \$8.2 million surplus as a result of a one-time windfall from personal property taxes, and reserves will remain similar to fiscal 2005, which is well above the city's formal policy of 10% of expenditures.

The city's overall debt burden remains moderate at \$1,986 per capita, or 3.1% of market value. The city does not have any variable-rate debt nor is it engaged in any swaps. Future capital needs are manageable.

Outlook

The stable outlook reflects the expectation that the city will continue to maintain good financial operations, a healthy fund balance, and manageable debt-service carrying charges.

Economy

The City of Lynchburg, which encompasses 50 square miles, is located in the central part of the commonwealth. The city's population, estimated at 68,000, has remained fairly stable for the past two decades, with only nominal growth of 4% since the 2000 census. Lynchburg's local economy serves as an employment and commercial center for a four-county metropolitan area that has a population of about 236,000. Indeed, per capita retail sales are very high at 197% of the commonwealth and 193% of the national averages. Given that the city's remaining available commercially zoned space is sufficient to accommodate further retail expansion, per capita sales are expected to remain well above all measurable levels.

Although the manufacturing sector remains an integral part of the city, given the numerous small and mid-size firms, the service sector continues to flourish in both employment and income. Within the city, the service sector is the leading employment sector, accounting for 29.5% of employment and 25% of income, followed by manufacturing (23.0%) and trade (20.7%). The city's largest employer is Centra Health Inc., a health care provider (4,500 employees), followed by Thomas Road Baptist Church and Jerry Falwell Ministries, university and private schools (3,321), Areva, maintenance and repair of nuclear power plants (1,512), and Lynchburg City Schools (1,500). The city's unemployment rate, which historically had been below the commonwealth and national averages, spiked in 2001 as a result of the economic downturn and the closure of Ericson Electronics in 2000 (3,500 employees). However, since 2002, when the unemployment rate hit 5.8%, up from 2.1% in 1999, the city's unemployment rate began a gradual decline to roughly 4.5% in 2005, still slightly above the commonwealth (3.5%), yet below the nation (5.1%).

Although Lynchburg serves as an employment and commercial center for the region, the city's wealth levels remain well below the commonwealth and national averages. Median household effective buying income is 69% of the commonwealth and 77% of the national levels. Similarly, per capita effective buying income is 74%

of the commonwealth and 82% of the national levels. However, these numbers are slightly skewed, given that 22% of the population are students, as there are several small colleges and universities within the city limits.

The city's tax base is large, exhibits no taxpayer concentration, and has increased at a healthy pace. In 2006, Lynchburg's tax base totaled \$4.3 billion, or a somewhat high \$63,611 per capita market value. Since 2000, growth in the tax base has been healthy, averaging 6.1% annually, with most of the growth attributed to reassessment. However, strong ongoing building activity continues to support this growth. Despite a reduction in the overall number of permits issued in 2006, the value of building permits peaked at \$171.0 million, with commercial construction accounting for 61% and residential 37%. The city projects a 2% increase in the tax base for fiscal 2007, and another 12% increase to an estimated \$4.88 billion for 2008, due to the city's next full reassessment. Although Lynchburg is an older and fairly dense community, it is experiencing significant development of modern single-family homes in certain subdivisions with prices ranging between \$400,000-\$500,000, much higher than the city-wide median of \$140,000. The revitalization of historic homes also continues.

Finances and Debt

The city's financial performance and position remain strong. Audited fiscal 2005 general fund results indicate a surplus of \$2.7 million. The ending unreserved general fund balance totaled \$26.5 million or a strong 21% of expenditures, of which almost all is unreserved. For the past five fiscal years (2000-2005), the unreserved general fund balance has averaged 20.5% of expenditures. For fiscal 2006, year-to-date, management projects a large \$8.2 million surplus as a result of a one-time windfall from personal property tax and reserves, similar to fiscal 2005, which is well above the city's formal policy of 10% of expenditures policy. Fund balance revenues in excess of the 10% may be used by the city for one-time capital expenditures. The city plans to utilize \$7.4 million of fund balance (\$5.5 million from prior year) in fiscal 2007 for various capital projects including street overlays and building repairs. In March 2004, and in response to Other Post Employment Benefits (OPEB), the city as well as the schools commissioned a preliminary cost evaluation. Annual required contributions for the city are \$4.3 million (assuming a 7.5% discount rate). The city will update the study and incorporate the funding methodology into the fiscal 2008 budget.

The city's overall debt burden remains moderate at \$1,986 per capita, or 3.1% of market value. In fiscal 2005, debt-service carrying charges were high at 9% of expenditures. However, amortization of debt is faster than average, with 68% of principal retired within 10 years, 95% within 20 years, and 100% by 2034.

Future capital needs are manageable. The city uses a five-year capital improvement plan to manage its capital needs. The current proposed plan (2006-2011) totals \$151.9 million, of which \$95 million is for general fund projects, \$51 million for school projects, \$43 million for transportation, and \$29 million for buildings. The bulk of the plan is expected to be financed by GO bonds (\$98.8 million), and pay-as-you-go and state and federal funds (\$41.2 million).

The city also faces continued challenges in its sewer operations. Since 1989, the city has faced a state order to address a combined sewer overflow (CSO) problem. The ongoing project requires the complete separation of storm water and sewer systems. A 2005 update of the plan to address the CSO problem estimated the cost at \$284 million amortized during the next 20-25 years.

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